STATEMENT OF

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DEPUTY SECRETARY

DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

COMMITTEE ON VETERANS' AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to share with you the progress, challenges, and future direction of the Department of Veterans Affairs (VA) revenue program. Accompanying me is Mr. Robert A. Perreault, VHA's Chief Business Officer.

As you know, Dr. Roswell established the Chief Business Office (CBO) within the Veterans Health Administration (VHA) not quite one year ago. The charge Secretary Principi and I issued to VHA and to the CBO was to provide focused leadership and direction to the multiple efforts comprising our revenue improvement strategy, and to further identify and pursue any actions necessary to ensure achievement of the goals and expectations of the revenue program. Within the past year, the CBO has expanded the scope of our 2001 Revenue Improvement Plan by incorporating additional immediate, mid-range, and long-term improvements encompassing the broad range of business processes that impact VA revenue activities. The strategies being pursued include establishment of health care industry based performance and operational metrics, technology enhancements and integration of proven business approaches, including establishment of centralized revenue operation centers.

To provide some good news at the outset of my testimony, I am pleased to report that collections continue to increase and that during the month of March 2003, VA realized a record $131.3 million in collections. Collections through March now total $715 million, which is $228 million above last year's collection rate. We estimate that this year's collections will approximate $1.6 billion, representing, the largest amount collected in the history of the revenue program. In addition, and consistent with industry measurement approaches, we have continued to reduce gross days' revenue outstanding, accounts receivable greater than ninety days, and days to bill.

Background

In 1986, Public Law 99-272 gave VA authority to seek reimbursement from third party health insurers for the cost of medical care furnished to insured nonservice connected (NSC) veterans. This law also authorized VA to assess a means test copayment to certain NSC veterans. The copayment is based on the veteran's income and assets.

Public Law 101-508, enacted in 1990, expanded VA's recovery program by providing authority to seek reimbursement from third party payers for the cost of medical care provided to insured service-connected veterans treated for NSC conditions. The law also authorized the per diem copayment and medication copayment programs.

Public Law 105-33, enacted in 1997, established the Medical Care Collections Fund (MCCF) and authorized VA to retain collections from health insurers and veteran's copayments at the local medical center. Prior to this law, these collections, less administrative costs, were returned to the Department of Treasury.

This law also granted VA the authority to begin billing reasonable charges. Reasonable charges are based on amounts that third parties pay for the same services furnished by private sector health care providers in the same geographic area rather than cost-based per diems. Previously, VA had used average cost-based per diem rates for billing insurers. Now, reasonable charges are calculated for inpatient facility charges, outpatient facility charges, and professional or clinician charges for inpatient and outpatient care.

Public Law 106-117, enacted in 1999, authorized the Secretary of VA to set outpatient and medication copayments rates and to establish a maximum cap on medication copayments for a calendar year. This law also authorized the Secretary to establish extended care copayment amounts, a maximum monthly copayment cap and a process to determine an individual veteran's co-pay based on a veteran's available resources.

Information Technology

We have made considerable improvement in operating processes and systems through the years, migrating from a labor-intensive manual process to automated billing and collection activity. We developed automated utilities to support pre-registration and insurance verification, and procured claims analyzer software to expedite clinical review of medical claims prior to submission to third party payers. In addition, we implemented electronic claims generation capabilities for transmittal of claims to third party health insurance companies, and activated a first party lockbox to automatically apply payments from veterans to their outstanding copayment charges. The automation of this process has simplified the process for veterans, significantly reduced processing time and freed facility staff to concentrate on follow-up of insurance claims.

Enhancements and changes to the Veterans Health Information Systems and Technology Architecture (VistA) have simplified many of the manual processes once utilized. However, as previously noted, much more needs to be done. We are currently procuring a commercial-off-the-shelf (COTS) Patient Financial Services System (PFSS) that is intended to replace the VistA Integrated Billing and Accounts Receivable package. This system coupled with several of the ongoing revenue action plan objectives will provide VA with a state of the art software solution that expedites the billing and collection process by enabling the establishment of encounter based patient accounts and substantially more reliable industry based reporting and analysis capabilities.

Performance Monitoring

As VA has embarked on its expanded revenue action plan, we have learned that "industry best" performance is built on a foundation of reliable registration, insurance

identification and verification and pre-authorization processes. We know that those activities must be coupled with technological interfaces that optimize automated collection of treatment information and timely coding of all essential health care delivery information. As such, actions have been initiated, with the appropriate application of regulations, defining payment criteria and extending through the registration and eligibility determination process to denial and payer relationship management.

Fundamentally, to improve our revenue performance, we first had to know how we were doing. As previously noted, one of the first efforts initiated with the establishment of the CBO was the development of industry based performance and operational metrics for headquarters and field managers. The first iteration of the new performance standards was implemented at the beginning of FY 03 and included amount of collections, gross days revenue outstanding, accounts receivable greater than 90 days, and days to bill. In addition we have initiated the reporting of billed amounts, percentage of collections versus bills and cost to collect. Facilities have favorably responded to the new performance metrics and improvements have been noted in almost every category.

Revenue Improvement Plan

Upon creation of the CBO, management initiated a comprehensive assessment of ongoing activities within the Revenue program. This assessment focused on "industry best" practices and resulted in the identification of a series of additional objectives, in addition to those originally included the 2001 Revenue Improvement Plan. The current CBO revenue action plan has combined those objectives and classified immediate improvement strategies targeted for completion by June 2003. Mid-term strategies are to be completed by December 2003, and long-term strategies are scheduled for completion in 2004 and beyond.

The immediate improvement strategies included development of the performance metrics, an expanded focus on contracting for collection of accounts receivable over 60 days, and utilization of available contract support encompassing collections, insurance identification and verification, coding, etc. Currently, over 70 outsourcing contracts are being used. Many of these are structured to allow contractors to retain a percentage of collections, which minimizes operational costs. Additionally, among our immediate

objectives the Health Revenue Center (HRC) in Topeka, KS was established to pilot regionalization of centralize revenue support activities. From July 2002 through March 2003 HRC activities yielded an additional $6.0 million in collections. Based on the results of the HRC pilot and other regionalization efforts, VHA will require the establishment of plans to centralized pre-registration, insurance identification and verification, and accounts receivable management activities within each VISN by the end of October 2003. Another immediate goal of the CBO was to expedite the development and implementation of Electronic Data Interchange (EDI) for third party claims to meet Health Insurance Portability and Accountability Act (HIPAA) deadlines. The initial e-Claims software is operational at all VA facilities and as of April 2003 in excess of 4 million claims have been generated.

VA has made front-line staff training on revenue process requirements a priority. We use the VA Employee Education Service and revenue process experts to develop education programs for core revenue business functions.

Also, as part of the immediate improvement strategy, we plan to pilot test a centralized coding pool to support two VISNs. We are also implementing point of care coding at Outpatient Clinics and developing a Charge Description Master that will eliminate the review and coding of non-billable events and increase efficiency in the coding process. To ensure accuracy and completeness of clinical information, further action is being taken to ensure that our physicians appropriately document every treatment encounter and associate requested tests and procedures with required diagnostic information. We have also mandated the use of encoder tools and claims scrubbers to enhance physician documentation and are mandating full utilization of electronic medical records effective October 1, 2003.

As part of the mid-term improvement strategies, we recognize the importance of accounts receivable payment and denial management to improve payer relationships. We are implementing a formal AR, Payment and Denial Management Program at the facility and VISN level and will require establishment of audit-appeal business processes and claims development quality controls.

Another mid-term improvement is to complete the Medicare Remittance Advice (MRA) project. This project is designed to improve the quality of our many Medicare

supplemental claims and accurately identify deductible and coinsurance amounts that Medicare supplemental insurers calculate to determine reimbursement to VA. This effort will also allow VA to more accurately identify the accounts receivable. Other mid-term strategies include:

- Software enhancements to ensure electronic payments from insurers -- targeted for implementation in November 2003;
- Development of encounter specific patient accounts, as well as enhancing the VistA clinical applications to collect data elements required for complete and accurate billing information;
- Development of standardized policy for pre- certification/ authorization to ensure payment of billed charges; continued stay reviews to manage "length of stay"; prospective procedural authorization and the establishment of a standardized Utilization Review process. Toward that objective, effective October 2003 pre-certification/authorization will be mandatory for all VHA facilities.
- Redesign of our Health Eligibility Center database to provide enhanced eligibility and enrollment functionality, improved data quality and data sharing capabilities. A single enrollment database will provide "register once" capability and support the delivery of consistent/reliable eligibility information across VHA.
- Enhancing and further automating the availability of compensation and award data; and
- Developing business and software solutions to automate the identification and verification of health insurance information to increase the identification of number of billable events and bring efficiencies to the process.

A major focus of our current long-term strategy is the implementation of an industry proven Patient Financial Services System (PFSS) that will yield dramatic improvements in both the timeliness and quality of claims. In addition, we fully anticipate increased staff efficiency through streamlined, and standardized re-engineered business processes. Also, as part of the long-term improvements in the revenue process,

VHA is requiring all Veterans Integrated Service Networks (VISNs) to establish regional revenue support centers that will initially centralize pre-registration, insurance identification/verification and accounts receivable management business processes. In addition, we are planning for the activation of a National Revenue Call Center that will serve as a centralized resource for veterans' questions concerning first-party bills and assist facility and network staff to address other critical aspects of billing and collection activities. Ultimately, ongoing improvements to our VistA applications coupled with the improvement realized with PFSS and business process reengineering initiatives will contribute to further increased collections.

We are also pursuing a number of additional development efforts focused on electronic pharmacy and dental claims and Recoupment for Fee Claims Paid.

Mr. Chairman, in addition to the above actions, we are developing a demonstration project to fully outsource the revenue process functions at a single VA Medical Center to test the feasibility of this approach to enhancing revenue.

Conclusion

While improvements have been made we are not standing still. We are optimistic that with the continued implementation of the revenue action plan VA collections will reach $ 2.1 billion in FY 2004. These process improvements will include VA-wide responsibility, accountability, assignment of more stringent performance measures and incentives, structured organizational change management, and standardization and definition of performance driven expectations.

This concludes my statement, and I will be pleased to respond to questions from the Subcommittee.